

India Equity Analytics

Results Preview Q1FY19

Metals Sector

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Please refer to disclosures at the end of this Research Report

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CMP	265		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	335	FY17	37%	37%	19.6	7.3	14.9
Upside	26%	FY18	35%	31%	25.1	8.7	18.5
Rating	BUY	FY19E	66%	79%	10.3	6.8	6.0
		FY 20E	58%	69%	9.7	5.6	5.3

	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Production (mt)	554.14	567.37	604.8	635.0	118.8	183.4	126.7
Offtake (mt)	543.32	580.29	618.6	649.5	137.4	158.9	146.4
<i>Operating Matrix</i>							
FSA Vol. (mt)	429.8	460.0	485.3	503.8	107.1	126.4	114.7
FSA Realiz.	1301	1257	1300	1307	1201	1403	1260
E-Auc Vol. (mt)	94.2	106.2	117.5	129.9	27.3	29.3	27.8
E-Auc Realiz.	1536	1839	1960	1970	1586	2112	1900
Washed Coal Vol. (mt)	14.0	11.5	12.5	12.5	2.7	3.1	3.1
Washed Coal Realiz.	3049	3022	2942	2940	3649	2923	2949
Othr. Prod. Vol. (mt)	3.4	2.9	3.3	3.3	0.8	0.8	0.8
Othr. Prod. Realiz.	2915	3249	3303	3308	3333	3373	3276
<i>Financials</i>							
Sales	78,221	85,862	94,640	100,178	19,161	26,909	21,787
Sales Gr	0%	10%	10%	6%	4%	16%	14%
Employee Cost	33,514	42,634	36,307	37,033	8,072	16,654	8,796
Ebdita	12,240	9,565	22,657	24,296	3,522	196	4,869
Ebdita Gr	-35%	-22%	137%	7%	-17%	-94%	38%
Net Profits	9,266	7,019	16,214	17,230	2,351	1,296	3,505
Profit Gr%	-35%	-24%	131%	6%	-23%	-52%	49%
EbditaM%	16%	11%	24%	24%	18%	1%	22%
Net Mgn%	12%	8%	17%	17%	12%	5%	16%

Fig in Rs Cr

Recent Developments

- ◆Price hike of 9% in Jan 18 and Rs.50/tonne evacuation charges have increased revenue visibility significantly. Annual increment in revenue expected to be Rs.6421 crore and Rs.2500 crore due to price hike and evacuation charges respectively.
- ◆Lower coal stocks at power plants (9 days at the end of May) expected to keep the off take volume on a higher side.
- ◆Wage agreement issue seems to be largely behind with only executive level employee (23000 employees) wage revision due in FY19 which will result in additional outgo of Rs.1000 crore.

Key Trackable this Quarter

- ◆Coal stocks at power plants
- ◆Thermal coal import.
- ◆We value the stock at 7x FY20e Book value.

CMP	219		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	290	FY17	-8%	1%	-4.4	0.4	9.3
Upside	32%	FY18	-5%	4%	-13.1	0.7	8.3
Rating	BUY	FY19E	1%	7%	46.1	0.7	5.9
		FY 20E	4%	8%	18.4	0.6	4.8

	FY17	FY18	FY19E	FY20E	Q1FY18	Q4FY18	Q1FY19
Ttl. Steel Capcty (mt)	7.1	10.6	10.6	10.6			
Power Capacity (MW)	3400	3400	3400	3400			
Stdln. Steel Sales (mt)	3.35	3.76	5.70	6.27	0.81	1.18	1.23
Oman Steel Sales (mt)	1.31	1.67	1.70	1.74	0.34	0.48	0.35
Power (mill unit)	9176	10905	12541	14422	3186	2310	3664
<i>Financials (Consol.)</i>							
Sales	21,051	27,383	37,305	39,526	5,669	8,599	8,763
Sales Gr	15%	30%	36%	6%	22%	36.70%	55%
Ebdita	4,658	6,469	8,763	9,838	1,353	2,137	2,287
Ebdita Gr	36%	39%	35%	12%	38%	38%	69%
Finance Cost	3,390	3,866	3,920	3,673	901	1,071	980
PBT	(2,671)	(1,277)	621	1,560	(510)	106	252
PBT Gr	-	-52%	-149%	151%	-	-	-
Net Profits	(2,538)	(1,616)	447	1,123	(420)	(425)	181
Profit Gr%	-	-36%	-	151%			-
EbditaM%	22%	24%	23%	25%	24%	25%	26%
Net Mgn%	-12%	-6%	1%	3%	-7%	-5%	2%
D/E	1.33	1.29	1.27	1.17			
Intrst. Covrge. Ratio	0.21	0.67	1.16	1.42			

Fig in Rs Cr

Recent Developments

- ◆4QFY18 consolidated EBITDA was highest ever led by higher spreads and robust volume however bottom-line got impacted due to exceptional items.
- ◆Standalone operations for the first time in 13 quarters turned positive in 4QFY18, with PAT coming in at Rs.145 crore.
- ◆Volume from Angul plant increased to 500KT in 4QFY18 from 250 KT in 3QFY18 led by commissioning of BoF. Plant is expected to contribute around 400 KT/tonne by 3QFY19.
- ◆Oman business continues to deliver strong performance with EBITDA/tonne increasing 80% YoY to USD 148/tonne. Power business still facing headwinds because of coal shortage.

Key Trackable this Quarter

- ◆Steel long products prices.
- ◆Cautious about exceptional items (No provision for couple of contingent liabilities).
- ◆We value the stock at 5.5x FY20e EV/EBITDA.

CMP	316		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	340	FY17	15%	16%	13.1	2.00	6.27
Upside	8%	FY18	22%	19%	11.4	2.49	6.78
Rating	NEUTRAL	FY19E	19%	20%	12.5	2.43	6.62
		FY 20E	17%	18%	12.5	2.11	6.61

	FY17	FY18	FY19E	FY20E	Q1FY18	Q4FY18	Q1FY19
Capacity (mt)	18.00	18.00	18.00	18.00			
Consol. Steel Sales(mt)	14.68	15.55	16.16	16.65	3.39	4.18	3.52
Avg.HRC (Rs./t)	39075	40340	42610	42715	39992	44167	45000
EBITDA/t (Consol.)	8293	9514	10428	10399	7720	12656	11957
<i>Financials (Consol.)</i>							
Sales	55,605	70,225	78,697	83,025	14,699	20,817	17,722
Sales Gr	34%	26%	12%	5%	25%	23%	17%
Ebdita	12,174	14,794	16,853	17,310	2,617	5,290	4,213
Ebdita Gr	90%	22%	14%	3%	-20%	67%	54%
Finance Cost	3,768	3,701	3,894	4,216	945	883	974
PBT	5,128	7,873	9,685	9,729	894	3,587	2,421
PBT Gr	-	54%	23%	0%	-42%	157%	151%
Net Profits	3,467	6,113	6,489	6,518	624	2,879	1,622
Profit Gr%	-	76%	6%	0%	-44%	186%	141%
EbditaM%	22%	21%	21%	21%	18%	25%	24%
Net Mgn%	6%	9%	8%	8%	4%	14%	9%
D/E	1.65	1.21	1.16	1.09			

Fig in Rs Cr

Recent Developments

◆JSW Steel has announced capex of Rs.17600 crore in addition to Rs.26850 crore announced last year to increase its crude steel capacity by 6.7 mt and downstream capacity by 3.34 mt. Incremental capex has put focus on downstream capacity and cost reduction measures which would aid company to expand in high margin VAP segment and lead to cost improvement. ◆Company's debt is expected to increase going ahead as out of Rs.10000 crore capex for FY19, Rs.7000 would be funded with debt.

◆Out of 5 iron ore mines that company got out of auction one is operational , second is about to start operation and rest 3 mines are expected to get commissioned by 2HFY19.

◆Company also announced USD 500 mn capex at US plate and pipe mill. First and second phase is for modernization of existing plant with outlay of USD 150 mn and USD 350 mn for third phase, related to backward integration which is subject to environmental clearance.

Key Trackable this Quarter

◆Steel price movement.

◆China Steel exports.

◆We value the stock at 6.66x FY19e EV/EBITDA.

CMP	224		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	265	FY17	4%	2%	23.3	1.0	7.0
Upside	18%	FY18	11%	6%	7.9	0.9	6.3
Rating	BUY	FY19E	11%	6%	9.1	1.0	6.1
		FY 20E	10%	6%	8.1	0.8	5.5

Production (KT)	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Alumina	2887	2880	2937	3000	724	710	738
Aluminium	1265	1290	1292	1305	321	320	322
Copper	376	411	411	411	109	105	109
Novelis Shipments	3067	3189	3237	3285	785	806	797
Segmental Revenues							
Aluminium	20602	21396	22442	22651	5008	5513	5602
Copper	19448	22416	24330	24394	5403	6170	6405
Novelis	62612	72006	81918	83103	-	-	-
Less:Excise duty	-2479	-646	-	-	-4	-2	-
Total	100184	115172	128690	130148	10407	11681	12007
Financials							
Sales	100,184	115,172	128,690	130,148	10407	11681	12007
Sales Gr	1%	15%	12%	1%	28%	-1%	15%
Ebdita	12,447	13,921	15,557	15,964	1148	1258	1559
Ebdita Gr	41%	12%	12%	3%	2%	-7%	36%
Net Profits	1,882	6,083	5,654	6,365	290	377	589
Profit Gr%	-368%	223%	-7%	13%	-2%	-25%	103%
Novelis Ebitda(USDmn)	1001	1181	1341	1383	287	314	356
EbditaM%	12%	12%	12%	12%	11%	11%	13%
Net Mgn%	2%	5%	4%	5%	3%	3%	5%
D/E	1.27	0.93	0.95	0.76			

* Quarterly Fig Standalone

Fig in Rs Cr

Recent Developments

◆Novelis delivered robust performance in 4QFY18 with adjst. EBITDA at USD 319 mn (+9% YoY) and EBITDA/ton increasing to USD 396/ton (+7% YoY).Company is also doubling its capacity in China adding 100 kilotonnes with capex of USD 180 mn ,expected to be operational by 2020. Capacity addition of 200 kt at Guthrie Kentucky ,US is also on track.

◆Shutdown of VEDL's copper smelter, strong copper prices and restarting of DAP plant would aid earning in copper business. However, company is already operating at 95% of capacity which would limit volume growth.

◆Stndl. capex of Rs.1600 cr for Utkal and downstream expsn. and USD 450 mn for Novelis.

Key Trackable this Quarter

◆Implementation of US sanctions on Rusal (Impact on Aluminium Prices)

◆Volume growth in VAP (Management expects 10-12% growth YoY).

◆We value the stock at 6 x FY20e EV/EBITDA.

			Roe%	Roce%	P/E	P/B	EV/Ebdita
CMP	62						
Target	80	FY17	7%	6%	22.1	1.4	11.6
Upside	29%	FY18	13%	9%	9.6	1.2	7.3
Rating	BUY	FY19E	12%	16%	9.1	1.1	4.9
		FY 20E	13%	16%	8.6	1.1	4.9

	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Alumina Sales (MT)	1294900	1335000	1344000	1386000	259000	440000	302034
Aluminium Sales (MT)	385517	424000	415000	420000	89000	112000	87111
<i>Segmental Revenues</i>							
Alumina	4046	5162	5898	6094	942	1741	1278
Aluminium Sales (MT)	5537	6409	6581	6528	1387	1695	1397
Others	109	127	163	163	41	21	41
Total	9692	11698	12642	12785	2369	3458	2716
Less: Intr. Segmt. Rvn.	1642	2079	2369	2420	457	595	492
Net Sales	8050	9618	10273	10365	1912	2863	2223
<i>Financials</i>							
Sales	8,050	9,618	10,273	10,422	1803	2863	2223
Sales Gr	11%	28%	7%	1%	18%	18%	23%
Ebdita	1,080	1,397	2,181	2,222	228	490	638
Ebdita Gr	13%	29%	56%	2%	17%	15%	195%
Net Profits	668	1,342	1,341	1,412	129	257	396
Adj. PAT	709	518	1,341	1,412	129	251	396
Profit Gr%	-15%	-27%	159%	5%	-6%	13%	202%
EbditaM%	13%	15%	21%	21%	13%	17%	29%
Net Mgn%	8%	14%	13%	14%	7%	9%	18%

Fig in Rs Cr

Recent Developments

- ◆Sudden rise in realization for Alumina and Aluminum is primarily because of sanctions imposed by USA against Russal. Lower supply of Alumina is attributable to closure of Alumina refinery in Brazil.
- ◆Management expects price hike to sustain for 1Q and 2QFY19 especially for Alumina.
- ◆Company has capex target of Rs.1100 crore for FY19 with Rs.393 crore for the 5th stream Alumina refinery.
- ◆Utkal D mine is expected to be commissioned during 3QFY20.
- ◆Enhancement of gratuity ceiling limit has led to increase employee cost by Rs.337 crore. In addition pay revision of employee also led to increase in cost by Rs.240 crore. Employee cost for FY19 is expected to be at least less by Rs.337 crore as the gratuity expense is one offs.

Key Trackable this Quarter

- ◆US sanctions on Russal.
- ◆Production run rate of Alunorte Alumina refinery in Brazil.

◆We value the stock at 1.4x FY20e Book Value

CMP	274		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	305	FY17	27%	26%	14.6	4.0	11.7
Upside	11%	FY18	26%	30%	13.8	3.5	10.2
Rating	NEUTRAL	FY19E	24%	29%	12.3	2.9	8.3
		FY 20E	23%	28%	11.0	2.5	7.2

Mined Metal(KT)	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Zinc & Lead	907	947	978	1120	233	255	215
<i>Refined Metal</i>							
Zinc (KT)	672	792	799	931	194	206	176
Lead (KT)	144	169	169	177	35	50	37
Total	816	961	968	1109	229	256	213
Silver (MT)	480	557	655	775	115	170	144
Silver LBMA (\$/oz.)	18	17	18	18	17	17	18
Zinc LME (\$/MT)	2365	3054	3128	3133	2596	3421	3100
Lead LME (\$/MT)	2003	2378	2435	2441	2161	2523	2400
<i>Financials</i>							
Sales	17273	22084	24279	27162	4576	6277	5930
Sales Gr	22%	28%	10%	12%	81%	-7%	30%
Ebdita	9739	12272	14016	15572	2384	3620	3592
Ebdita Gr	46%	26%	14%	11%	110.8%	-3.4%	50.7%
Net Profits	8316	9276	9953	11106	1876	2505	2551
Profit Gr%	2%	12%	7%	12%	41.0%	39.9%	43.0%
EbditaM%	56%	56%	58%	57%	52%	58%	61%
Net Mgn%	48%	42%	41%	41%	41%	40%	43%
D/E	0.26	0.00	0.00	0.00			

Fig in Rs Cr

Recent Developments

- ◆Company has announced capacity expansion plans. Increasing capacity to 1.35 mtpa in three years and finally taking it to 1.5 mtpa. The new expansion plan would run concurrently with the existing expansion of taking the capacity to 1.2 mtpa. It would take the total ore production to 20.4 mtpa and mined metal capacity from 1.2 mtpa to 1.35 mtpa.
- ◆Volume growth in FY19 would remain muted as company migrates from Open Cast mines to Under Ground mines and ramping up UG mines would limit volume growth in FY19. Going ahead we expect volume CAGR of 18%/8%/2% for Silver/Zinc/Lead and Revenue/PAT CAGR of 11%/9% over FY18-20e.
- ◆Company has increased its focus on Silver business and expects strong growth in silver production. Management has set production target at 650-700 tons for FY2019.

Key Trackable this Quarter

- ◆LME Zinc movement trackable for near term (volume would kick in from FY20 onwards)
- ◆Volume ramp up from underground mines.

◆We value the stock at 7.6x FY20e EV/EBITDA.

CMP	102		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	112	FY17	11%	15%	16.3	1.9	10.2
Upside	10%	FY18	16%	23%	9.9	1.5	5.5
Rating	NEUTRAL	FY19E	16%	22%	8.2	1.3	4.9
		FY 20E	15%	20%	8.2	1.2	5.0

Sales Volume (mn toni)	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Chhatisgarh(mn tonne)	23.01	23.17	25.50	26.00	5.81	7.15	6.40
Karnataka	12.62	12.91	13.00	14.00	3.37	3.38	3.40
Total	35.62	36.08	38.50	40.00	9.18	10.54	9.79
Realization/Cost(Rs/t)							
Realization	2478	3220	3076	3035	3094	3685	3299
Cost	1467	1609	1488	1489	1466	1881	1476
EBITDA/tonne	1011	1610	1588	1546	1628	1804	1823
Iron ore price (Rs/t)	2344	2953	2971	2933	2790	3570	3190
Financials							
Sales	8,828	11,615	11,841	12,139	2842	3883	3231
Sales Gr	37%	32%	2%	3%	65%	35%	14%
Ebdita	3,602	5,809	6,114	6,183	1495	1901	1785
Ebdita Gr	31%	61%	5%	1%	83%	104%	19%
Net Profits	2,589	3,806	4,141	4,183	969	1106	1202
Profit Gr%	-5%	47%	9%	1%	36%	116%	24%
EbditaM%	41%	50%	52%	51%	53%	49%	55%
Net Mgn%	29%	33%	35%	34%	34%	28%	37%
D/E	0.00	0.02	0.00	0.00			

Fig in Rs Cr

Recent Developments

◆NMDC's 4QFY18 EBITDA grew by 103% YoY and 57% QoQ led by price hike taken by company in Jan 2018 (due to supply disruptions in domestic market). Sales volume grew by 8% YoY and 31% QoQ primarily driven by increase in Chhattisgarh volume (10% YoY and 41% QoQ) whereas Karnataka volume grew by (4% YoY and 13% YoY).

◆NMDC's current iron ore prices are on higher side but we expect prices to fall from current level going ahead as iron ore supply is expected to normalize due commissioning of banned mines in Odisha and increase in productions from captive mines in the country.

◆Company is focusing on commissioning of Nagarnar steel plant by September 2018. Management has said various issues needs to be worked out before divestment of steel plant, but irrespective of any decision steel plant will get commission. We have not factored in any contribution from steel plant in our estimates.

Key Trackable this Quarter

- ◆International Iron ore price trend.
- ◆Contribution from steel plant (not yet factored in projection).

◆We value the stock at 5.2x FY20e EV/EBITDA.

CMP	1006		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	1080	FY17	7%	6%	18.3	1.2	12.5
Upside	7%	FY18	14%	17%	12.5	1.8	7.3
Rating	NEUTRAL	FY19E	14%	16%	11.2	1.6	6.6
		FY 20E	12%	14%	11.1	1.4	6.4

	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
<i>Sales/Realization</i>							
Sponge Iron (MT)	392752	413500	425000	430000	98500	108000	101239
Realization (Rs/t)	14389	18409	21801	21336	17955	21263	23100
Power (MKWH)	132	144	146	147	38	37	36
Realization (Rs/unit)	4.89	5.03	4.98	4.98	4.93	4.86	5.03
EBITDA/tonne	1572	4418	4532	4412	3919	5703	5348
<i>Financials</i>							
Sales	557	800	871	863	175	244	220
Sales Gr	-3%	44%	9%	-1%	62%	46%	26%
COGS	373	496	546	538	105	146	132
COGS % of Sales	67%	62%	63%	62%	60%	60%	60%
Ebdita	62	183	193	190	39	62	54
Ebdita Gr	157%	196%	5%	-2%	374%	139%	40%
Net Profits	59	141	157	158	31	47	43
Profit Gr%	84%	140%	11%	0%	190%	120%	41%
EbditaM%	11%	23%	22%	22%	22%	25%	25%
Net Mgn%	11%	18%	18%	18%	17%	19%	20%
D/E	0.00	0.00	0.00	0.00			

Fig in Rs Cr

Recent Developments

◆Tata Sponge surpassed its annual Sponge Iron production target with 107% capacity utilization, producing 417000 tonne in FY18. Sponge Iron production increased by 7% in FY18 as compared to FY17 and target for FY19 has been set at 425000 tones.

◆Company's steel plant capacity is still work in progress and nothing concrete on the plan has been shared yet. Management is evaluating different options of setting plant, management was expected to share capex details at the end of FY18 but it has been delayed.

◆Management expects Iron ore prices to stabilize at current level but increase in coal prices expected. Iron ore landed cost was around Rs.2900/tonne and Coal at Rs.8900/tonne for 4QFY18.

Key Trackable this Quarter

◆Coking coal price movement.

◆Impact of Bhushan Steel acquisition on steel plant capex

◆We value the stock at 5.9x FY20e EV/EBITDA.

CMP	1715		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	2103	FY17	20%	33%	18.9	3.8	8.8
Upside	23%	FY18	19%	35%	29.4	5.6	12.9
Rating	BUY	FY19E	21%	37%	20.1	4.2	9.2
		FY 20E	23%	39%	15.4	3.5	7.5

	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Sales (KT)	979	1185	1421	1706	278	315	334
<i>Segmental Revenues</i>							
Hollow Section(KT)	475	614	736	884	137	164	165
Realization (Rs/t)	38116	42999	45281	44728	39689	46416	46416
Black Pipe (KT)	151	164	197	236	39	47	47
Realization (Rs/t)	37388	42224	44297	43739	38962	45390	45390
GI Pipe (KT)	117	111	134	160	29	27	35
Realization (Rs/t)	46188	51783	54519	53769	48518	55800	55800
GP Pipe (KT)	189	241	289	347	60	63	72
Realization (Rs/t)	46586	51532	53745	53041	48518	55044	55044
Coils & Other (KT)	47	54	65	78	13	14	16
Realization (Rs/t)	21333	24068	25999	25662	21555	26631	26631
<i>Financials</i>							
Sales	4,545	5,335	6,660	7,891	1156	1519	1608
Sales Gr	8%	17%	25%	18%	2%	15%	39%
Ebdita	324	371	464	571	79	103	110
Ebdita Gr	15%	14%	25%	23%	-12%	38%	40%
Net Profits	146	160	210	274	39	45	48
Profit Gr%	45%	10%	31%	30%	-6%	8%	24%
EbditaM%	7%	7%	7%	7%	7%	7%	7%
Net Mgn%	3%	3%	3%	3%	3%	3%	3%
D/E	0.79	0.80	0.68	0.59			

Fig in Rs Cr

Recent Developments

- ◆Management expects remaining 2 lines (6 already running) of DFT to get commissioned by 3Q or 4QFY19 taking the total capacity to close to 2mt. Improvement in margins led by DFT expected to come in from FY20 onwards.
- ◆Next tracker project has been a successful operation. Company expects to serve 1 or 2 other player in solar mounting segment in two years.
- ◆Management expects volume growth trajectory of 20% to continue going ahead.

Key Trackable this Quarter

- ◆EBITDA margin trend at 7%.
- ◆Domestic Steel Prices
- ◆Acceptance of new products (DFT) by customers.

•We value the stock at 18x FY20e EPS.

CMP	978		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	880	FY17	17%	22%	45.5	7.7	25.3
Upside	-10%	FY18	17%	23%	56.1	9.9	32.0
Rating	NEUTRAL	FY19E	19%	25%	50.4	9.8	29.1
		FY 20E	19%	25%	41.7	8.0	24.5

Pipe	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Capacity(MT)	137708	152100	175708	202064			
Sales(MT)	89449	103991	124789	149747	19539	31618	23447
<i>Segmental Revenues</i>							
Pipes	1474	1618	2015	2417	323	504	381
Adhesives	455	509	611	734	115	156	138
Adjst.	40	21	0	0	31	10	0
Total	1889	2106	2626	3150	407	651	518
<i>Financials</i>							
Sales	1,889	2,106	2626	3150	407	651	518
Sales Gr	13%	11%	25%	20%	-3%	12%	27%
Ebdita	264	317	425	506	48	118	79
Ebdita Gr	27%	20%	34%	19%	-11%	33%	64%
Net Profits	145	176	244	295	25	65	42
Profit Gr%	42%	21%	39%	21%	-7%	18%	68%
EbditaM%	14%	15%	16%	16%	12%	18%	15%
Net Mgn%	8%	8%	9%	9%	6%	10%	8%
D/E	0.19	0.12	0.12	0.10			

Fig in Rs Cr

Recent Developments

◆Company recently commissioned 22700 MT Ghiloth plant (piping), Rajasthan. It will strengthen company's presence in North India. Hosur plant in Tamil Nadu set to commission in Sept. 2018 will strengthen its presence in South India.

◆Medium term growth prospects made stronger by launch of new products such as 'Resiquick'(0.5 gm for Rs.5) in adhesive business and double wall corrugated pipes (used for waste water) in piping business.

◆Astral has increased its pipe production capacity by 10% in FY18 to 152100 MT to capture increasing demand for PVC and CPVC pipes led by various govt. schemes and increasing demand from household piping segment (replacing metals pipes in houses). Piping capacity grew at CAGR of 15% over FY12-18 and is expected to grow by 16 % in FY19 to over 1.7lk tonnes.

Key Trackable this Quarter

◆USD-INR exchange rate.

◆Movement in oil prices.

◆We value the stock at 40x FY20e EPS.

CMP	895		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	1024	FY17	12%	17%	24.9	3.0	13.8
Upside	14%	FY18	12%	16%	26.3	3.1	15.0
Rating	NEUTRAL	FY19E	13%	17%	23.8	3.2	13.8
		FY 20E	14%	19%	19.6	2.8	11.3

Volume/Realizations	FY17	FY18	FY19E	FY20E	Q1FY18	Q4FY18	Q1FY19
SS Volume (MT)	18228	21054	24212	272793	4493	5334	5167
Realization (Rs/t)	311554	299791	317210	33222	288762	317210	317210
CS Volume (MT)	179655	201027	231181	272793	31641	74804	36388
Realization(Rs/t)	44302	51299	52888	52888	47741	52888	52888
Segmental Revenues							
SS Sales	568	631	768	906	130	169	164
CS Sales	796	1031	1223	1443	151	396	192
Other	48	107	0	0	14	54	0
Total	1412	1769	1991	2349	295	619	356
Financials							
Sales	1,412	1,767	1991	2349	295	619	356
Sales Gr	-18%	25%	13%	18%	-13%	59%	21%
Ebdita	257	266	347	417	47	93	59
Ebdita Gr	-10%	3%	31%	20%	-22%	36%	26%
Net Profits	144	152	195	237	23	56	30
Profit Gr%	-13%	7%	29%	21%	-26%	47%	28%
EbditaM%	18%	15%	17%	18%	16%	15%	17%
Net Mgn%	10%	9%	10%	10%	8%	9%	8%
D/E	0.00	0.06	0.17	0.09			

Fig in Rs Cr

Recent Developments

- ◆SS seamless capex to increase capacity by 20000 tonnes at capex of around Rs.350-400 crore ,it will make Ratnamani the only player in market with capability to extrude mother hollow pipes of upto 8” in diameter from current 2” it would also lead to import substitute.
- ◆LSAW capex is also on horizon, capacity would increase from 40 KT to 120 KT , expected to get commission by 2HFY20. Capacity expansion is prompted by increase in capex activities in Greenfield refineries, pet chem. Projects and upgradation & expansion of PSU entities.
- ◆Guidance of 15-20% sales and volume growth in FY19 and EBITDA to be in range of 16-18%.
- ◆Company would go for long term borrowing (Rs.300-350 crore) to fund Rs.500 crore capex over FY19 and FY20.Expected capex of Rs.300-350 crore for FY19.

Key Trackable this Quarter

- ◆Oil price movement (Strong Oil prices would boost capex in oil exploration activities).
- ◆Interest cost (impact of increase in borrowings).
- ◆We value the stock at 20x FY20e EPS.

CMP	165		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	220	FY17	23%	32%	16.8	3.8	8.2
Upside	33%	FY18	18%	32%	23.8	4.4	9.7
Rating	BUY	FY19E	20%	34%	18.0	3.6	7.9
		FY 20E	21%	36%	13.9	3.0	6.5

Volumes (mtpa)	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Engn. Products	200100	230000	264500	304175	46471	62662	53442
PVC Products	25134	25500	42840	59119	5139	8877	8633
<i>Segmental Revenues</i>							
Infra Projects	81	86	98	113	24	26	28
Engn. Products	1424	1807	2,078	2,390	365	492	420
PVC Products	198	215	311	459	43	75	63
Net Sales	1703	2108	2,488	2,963	433	593	511
<i>Financials</i>							
Sales	1,703	2,074	2,488	2,963	433	593	511
Sales Gr	13%	22%	20%	19%	40%	2%	28%
Ebdita	246	303	371	451	52	109	82
Ebdita Gr	12%	23%	23%	22%	27%	19%	59%
Net Profits	112	118	155	201	16	49	32
Profit Gr%	17%	6%	32%	30%	16%	-7%	99%
EbditaM%	14%	15%	15%	15%	13%	18%	16%
Net Mgn%	7%	6%	6%	7%	4%	8%	6%
D/E	0.84	0.72	0.66	0.58			

Fig in Rs Cr

Recent Developments

- ◆ Company hired Vector consultant for implementation of theory of constraints, as it will lead to optimization of supply chain and sales & distribution network of the company.
- ◆ JV with Metzer (in to drip irrigation business) is expected to start operation in October 2018, Hyderabad has been finalized as the location. Overall capex in the business would be around USD 4 million and Skipper's share would be USD 2 million (50% JV) and is to be funded partly by debt and partly by equity portion.
- ◆ Company Secured new orders of Rs.620 crore in 4QFY18 and total order book at Rs.2627 crore (44% PGCIL , 40% SEB & Domestic and balance export).
- ◆ Company in FY18 entered into Railway electrification market, receiving approvals from Indian Railways and for the first time bagged a small order of Rs.16 crore.
- ◆ Expected capex for FY19 is around Rs.75 crore (Rs.20 crore for polymer business and Rs.55 crore for engineering product).

Key Trackable this Quarter

- ◆ Gross margin to look out for (sharp increase in steel prices in 3&4QFY18).

◆ We value the stock at 2.2x FY20e P/BV

CMP	549		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	575	FY17	15%	22%	20.2	3.1	12.7
Upside	5%	FY18	11%	15%	27.6	3.0	17.0
Rating	NEUTRAL	FY19E	12%	18%	23.6	2.8	14.0
		FY 20E	12%	18%	21.3	2.6	12.7

Sales Volume(MT)	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Pipes and Fittings	209339	252036	279760	310534	71518	71758	79385
PVC Resin	235104	258767	258769	287863	74998	72123	74999
Power (MWH)	202890	208747	225779	250615	57999	57912	64067

Segmental Revenues

PVC	1754	1778	1875	2069	529	516	558
PVC Pipes & Fittings	2211	2329	2665	2984	689	683	755
Power	145	142	158	175	38	40	45
Total	4110	4250	4698	5228	1256	1239	1358
Less:Inter Segment Re'	1131	1418	1332	1492	432	430	378
Net Sales/Income Fror	2979	2831	3365	3736	824	809	980

Financials

Sales	2,988	2,738	3365	3736	731	809	980
Sales Gr	5%	-8%	23%	11%	9%	-20%	34%
Ebdita	563	484	586	645	131	188	195
Ebdita Gr	39%	-14%	21%	10%	-18%	5%	49%
Net Profits	355	299	350	388	80	121	120
Profit Gr%	38%	-16%	17%	11%	-19%	-2%	51%
EbditaM%	19%	18%	17%	17%	18%	23%	20%
Net Mgn%	12%	11%	10%	10%	11%	15%	12%
D/E	0.04	0.04	0.05	0.05			

Fig in Rs Cr

Recent Developments

- ◆4QFY18 revenue degrew by 20% YoY to Rs.809 crore led by 6% fall in PVC resin volume (72123 MT in 4QFY18). However EBITDA grew by 5% because of favourable PVC-EDC delta.
- ◆Finolex added 40000 MT of capacity in FY18 to take total pipe and fitting capacity to 330000 MT , which is currently running at 76% capacity utilization level. Company plans to add 30000 MT of capacity every year going ahead keeping the capacity utilization level at 76%.
- ◆Management would reduce its target of USD 1 billion topline in FY20, as it was not able to garner new business (30% of current) that it was aiming for and had to call it off.
- ◆CPVC volume came in at 5800 tonnes in FY18 up 41% YoY. Company has new products in CPVC segment (more attractive than PVC at gross and EBITDA level) to launch in coming year.

Key Trackable this Quarter

- ◆Crude price movement (Increases inventory risk)
- ◆Impact of Monsoon
- ◆We value the stock at 11x FY20e EV/EBITDA.

CMP	695		Roe%	Roce%	P/E	P/B	EV/Ebdita
Target	738	FY17	56%	52%	12.8	7.2	7.3
Upside	6%	FY18	44%	41%	11.7	5.2	7.4
Rating	NEUTRAL	FY19E	32%	42%	10.7	3.4	6.0
		FY 20E	26%	35%	10.2	2.6	5.7

Sales/Realization	FY17	FY18	FY19E	FY 20E	Q1FY18	Q4FY18	Q1FY19
Pig Iron (MT)	379434	500600	500000	500000	102000	136000	101878
Realization(Rs/t)	25357	27817	28947	28735	27403	28457	29026
DI Pipes (MT)	183947	209600	205000	210000	49000	65000	47925
Realization(Rs/t)	46218	47695	46149	46149	48918	46149	46149
Segmental Revenues							
Pig Iron	962	1393	1447	1437	280	387	296
Ductile Pipe	850	1000	946	969	240	300	221
Inter Segment	-402	-498	-452	-463	-111	-141	-103
Total	1410	1894	1942	1943	408	546	414
Less: Excise	92	21	0	0	21	0	0
Sales	1318	1873	1942	1943	387	546	414
Financials							
Sales	1,318	1,873	1,942	1,943	387	546	414
Sales Gr	0%	42%	4%	0%	23%	36%	7%
Ebdita	225	277	311	323	50	88	60
Ebdita Gr	4%	23%	12%	4%	-18%	17%	21%
Net Profits	116	159	165	173	31	55	28
Profit Gr%	3%	37%	4%	5%	-11%	35%	-9%
EbditaM%	17%	15%	16%	17%	13%	16%	14%
Net Mgn%	9%	8%	8%	9%	8%	10%	7%
D/E	1.60	1.16	0.69	0.44			

Fig in Rs Cr

Recent Developments

- ◆No as such capacity expansion in FY19, minor addition of around 5-10% led by debottlenecking activities. Company's market share grew from 10% to 13% in FY18.
- ◆Annual maintenance shutdown of 1st blast furnace already in place.
- ◆Company has order book of around 8-9 months.
- ◆Management expects DI pipe industry to grow at least by 10% in FY19 led by strong pull from state govt.

Key Trackable this Quarter

- ◆Updates on capacity expansion plans.
- ◆Domestic pig iron price movement.
- ◆We value the stock at 6x FY20e EV/EBITDA.

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